Directors' remuneration report

Our commitment to both shareholder interests and executive engagement continues, and we are confident that our approach to executive pay aligns well with the recovery of BP's business.

Chairman's introduction

> "The continuity of our pay structure provides a relatively simple, performance-based system tied directly to strategy."

Dear shareholder

BP made many further positive steps in its recovery journey during 2012. The remuneration committee recognizes the patience of investors during this period since the 2010 Deepwater Horizon accident. Equally we recognize the persistence of our executives in embedding safe and effective operations deeply into the fabric of the company while systematically restoring value. Progress is being made, reflecting a clear strategy and disciplined execution.

Our remuneration system for executive directors is tied closely to this progress. The company's strategy forms the basis for an annual plan and the measures and targets used for both annual and long-term variable pay. Variable pay, based on performance, makes up the vast majority of total potential remuneration for executive directors, and of that, most is long-term, reflecting the nature of BP's business and providing strong alignment with shareholders.

Our process for determining pay is both rigorous and independent. I have met with a number of our key shareholders again this year to understand their perspectives. We seek to reflect shareholders' interests as well as to fairly reward the achievements of our executives, recognizing the contentious nature of top executive pay while ensuring competitiveness for our talented leadership. We believe informed, balanced judgement, and transparency of our decisions is vital. These principles continue to guide the committee's operation and have led to large variability in total remuneration for our executive directors over the past decade, reflecting the underlying performance of the company.

2012 outcomes

The outcomes of the various plans that make up 2012 total remuneration for executive directors are summarized in the table on page 130.

Annual bonus

Overall group performance was assessed at just below target. Annual bonus results were based on performance assessed against targets established at the start of the year and reflected the strategic priorities of safety and operational risk management, rebuilding trust and restoring value.

Safety and risk management results, accounting for 30% of bonus, were generally at or better than plan, with significant improvement and high standards in both loss of primary containment and process safety tier 1 incidents – both key indicators of process safety.

Rebuilding trust accounted for 20% of bonus, and the company continued to make important gains as measured by independent surveys.

Restoring value metrics accounted for 50% of bonus with somewhat mixed results. Upstream major project delivery was on target, and divestment targets were exceeded but operating cash flow, underlying replacement cost profit and total cash costs did not achieve plan targets.

Performance shares

No shares vested in the 2010-2012 share element. Performance measures for this plan related to total shareholder return, production, net income, and downstream profitability – all relative to the other oil majors. As the starting point for these metrics was prior to the Deepwater Horizon accident, performance failed to meet the level required for vesting.

Other elements

Salaries were increased 3% mid-year for Bob Dudley, Iain Conn and Dr Byron Grote. The deferred bonus component was first introduced following shareholder approval in 2010, and so no plan is yet eligible for vesting and will not be until early 2014. Pension increases reflect the application of relevant plan rules. As Bob Dudley's defined benefit pension is based on three-year average remuneration, its increased value reflects a catching up with his promotion, first to the board in 2009 and secondly to group chief executive in 2010. Similarly, Dr Brian Gilvary's pension increase reflects his promotion to chief financial officer at the start of 2012.

2013 policy

For 2013 our overall policy for executive directors will remain largely unchanged, and is summarized on page 136. The continuity of our pay structure comprising salary, annual bonus, deferred bonus, performance shares, and pension, provides a relatively simple, performance-based system tied directly to strategy. Salaries will be reviewed mid-year taking into consideration both external and internal relativities. Annual bonus will operate in the same way as last year but the metrics have evolved slightly to reflect annual plan priorities and with increased weight on restoring value. Performance shares follow the same format as last year with minor change in the metrics to align with strategy.

Report format

The UK government has issued draft regulations on revised reporting for directors' remuneration which are expected to be finalized later this year. We support many of the changes planned and have incorporated these into the current report to the extent we believe is appropriate while still complying with current regulations.

We hope that you find this report both informative and reassuring. Our commitment to both shareholder interests and executive engagement continues, and we are confident that our approach to executive pay aligns well with the recovery of BP's business.

Antony Burgmans KBE
Chairman of the remuneration committee
6 March 2013

Remuneration – the big picture

The remuneration policy for executive directors and the decisions of the remuneration committee have, for many years, been guided by key principles:

Linked to strategy	→	A substantial portion of executive remuneration should be linked to success in implementing the company's business strategy.
Performance related	→	The major part of total remuneration should vary with performance, with the largest elements share based, further aligning interests with shareholders.
Long-term based	→	The structure of pay should reflect the long-term nature of BP's business and the significance of safety and environmental risks.
Informed judgement	→	There should be both quantitative and qualitative assessments of performance with the committee making an informed judgement within a framework approved by shareholders.
Shareholder engagement	→	The remuneration committee will actively seek to understand shareholder preferences and be transparent in explaining its remuneration policy and practices.
Fair treatment	→	The total quantum of pay should take account of both external market and company conditions to achieve a balanced 'fair' outcome.

As reflected in the diagram below, the company's strategy forms the core from which key performance indicators are established. The total remuneration for executive directors is then tied to this via the four elements of total remuneration identified in the diagram below. Three of the four vary with performance and the majority of their remuneration is long term. For ease of reference page numbers in the report have been identified for each element where further detail can be found.

2012 total remuneration outcomes

Overview

Summary of remuneration of executive directors in 2012 (audited)

	Bob Dudley thousand		Iain Conn thousand		Dr Brian Gilvary thousand		Dr Byron Grote thousand	
Annual remuneration	**2012**	2011	**2012**	2011	**2012**	2011[a]	**2012**	2011
Salary	**$1,726**	$1,700	**£741**	£720	**£690**	n/a	**$1,464**	$1,426
Cash bonus[b]	**$837**	$850	**£374**	£396	**£366**	n/a	**$710**	$713
Other emoluments	**$110**	$66	**£39**	£35	**£13**	n/a	**$15**	$15
Total	**$2,673**	$2,616	**£1,154**	£1,151	**£1,069**	n/a	**$2,189**	$2,154
Vested equity								
Deferred bonus and match	**$0**	$0	**£0**	£0	**£0**	n/a	**$0**	$0
Performance shares[c]	**$0**	$788	**£666[d]**	£743	**£299[d]**	n/a	**$0**	$1,450
Total	**$0**	$788	**£666**	£743	**£299**	n/a	**$0**	$1,450
Total remuneration	**$2,673**	$3,404	**£1,820**	£1,894	**£1,368**	n/a	**$2,189**	$3,604
Pension								
Pension value increase[e]	**$7,317**	$4,908	**£940**	£1,209	**£2,132**	n/a	**$987**	$1,750
Cash in lieu of future accrual[f]	**n/a**	n/a	**£259**	£192	**£242**	n/a	**n/a**	n/a
Total including pension	**$9,990**	$8,312	**£3,019**	£3,295	**£3,742**	n/a	**$3,176**	$5,354

Amounts shown are in the currency received by executive directors. Annual bonuses are shown in the year they were earned.

[a] Dr Brian Gilvary joined the board on 1 January 2012.

[b] This reflects the amount of total overall bonus paid in cash with the deferred portion as set out in the conditional equity table below.

[c] Represents vesting of shares made at the end of the relevant performance period based on performance achieved under rules of the plan and includes re-invested dividends on the shares vested.

[d] There was no vesting under the 2010-2012 performance share element. The shares that vested for Iain Conn pertained to a separate restricted award made in 2008 and those for Dr Brian Gilvary to an award granted prior to joining the board. The market price of ordinary shares on respective vesting dates of 7 February 2013 and 15 January 2013 was £4.58.

[e] Represents the increase in transfer value calculated for defined benefit plans. Increases for Bob Dudley and Dr Brian Gilvary reflect their promotions as per applicable rules.

[f] As for all employees affected by UK pension tax limits and who wished to remain within these limits, with effect from April 2011, Iain Conn and Dr Brian Gilvary received a cash supplement of 35% of basic salary in lieu of future service pension accrual.

Conditional equity – to vest in future years, subject to performance

		Bob Dudley		Iain Conn		Dr Brian Gilvary		Dr Byron Grote	
Deferred bonus in respect of bonus year[a]		**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Mandatory deferral	Value (thousand)	**$837**	$850	**£374**	£396	**£366**	n/a	**$710**	$713
Voluntary deferral	Value (thousand)	**$837**	$850	**£374**	£396	**£366**	n/a	**$710**	$713
Total deferral converted to shares	Shares	**229,380**	218,412	**161,296**	161,304	**157,630**	n/a	**194,556**	183,276
Total matching shares	Shares	**229,380**	218,412	**161,296**	161,304	**157,630**	n/a	**194,556**	183,276
Vesting date		**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015
Performance shares		**2012-2014**	2011-2013	**2012-2014**	2011-2013	**2012-2014**	2011-2013	**2012-2014**	2011-2013
Potential maximum shares		**1,343,712**	1,330,332	**660,633**	623,025	**624,434**	n/a	**828,936**	785,394
Vesting date		**Feb 2015**	Feb 2014	**Feb 2015**	Feb 2014	**Feb 2015**	Feb 2014	**Feb 2015**	Feb 2014

[a] The number of deferred shares is calculated using the three-day average share price following the full-year result announcement which was £4.91/share and $46.70/ADS in February 2012 and £4.64/share and $43.78/ADS in February 2013. Both deferred and matched shares are subject to a safety and environmental hurdle over the three-year deferral period.

Non-executive directors in 2012 (audited)

		£ thousand
	2012	2011
Carl-Henric Svanberg	**750**	750
Paul Anderson	**149**	128
Admiral Frank Bowman	**126**	120
Antony Burgmans	**120**	100
Cynthia Carroll	**98**	85
George David[a]	**135**	128
Ian Davis	**128**	160
Professor Dame Ann Dowling[b c]	**97**	–
Brendan Nelson	**119**	103
Phuthuma Nhleko	**123**	113
Andrew Shilston[d]	**125**	–
Director leaving the board in 2012		
Sir William Castell[e]	**42**	168

[a] In addition, George David received £28,000 for chairing the BP technology advisory council.

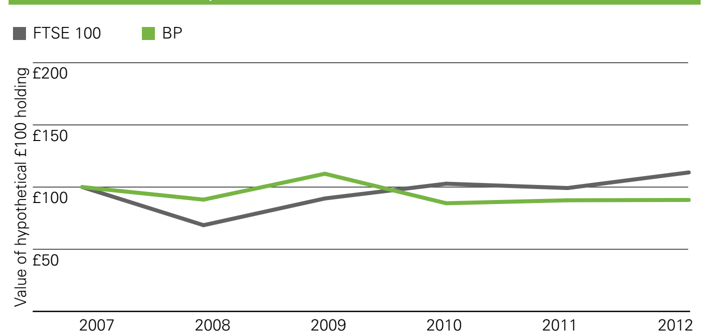
[b] Appointed on 3 February 2012.

[c] In addition, Professor Dowling received £4,166 for her membership of the BP technology advisory council.

[d] Appointed 1 January 2012 and became senior independent director in April 2012.

[e] Retired from the board in April 2012.

Historical TSR performance

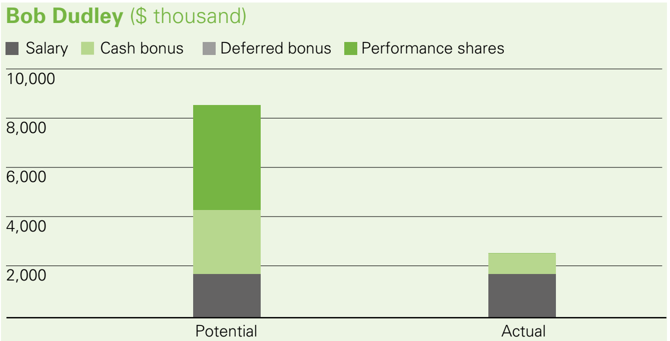


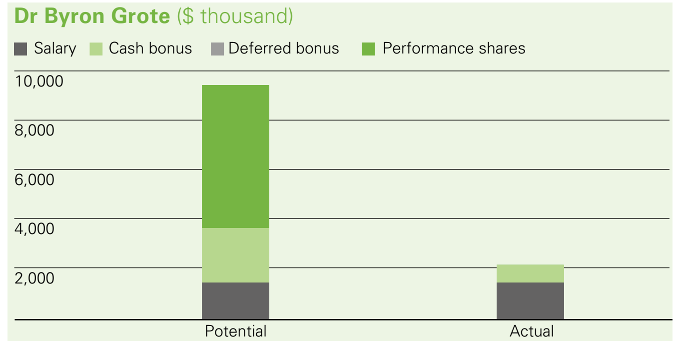
This graph shows the growth in value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years, relative to the FTSE 100 Index (of which the company is a constituent). The values of the hypothetical £100 holdings at the end of the five-year period were £89.60 and £111.79 respectively.

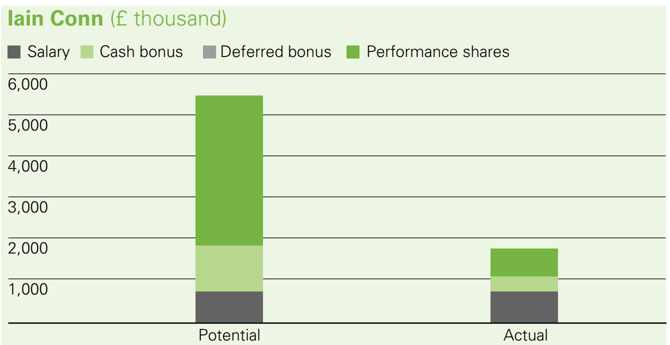
2012 total remuneration in more depth

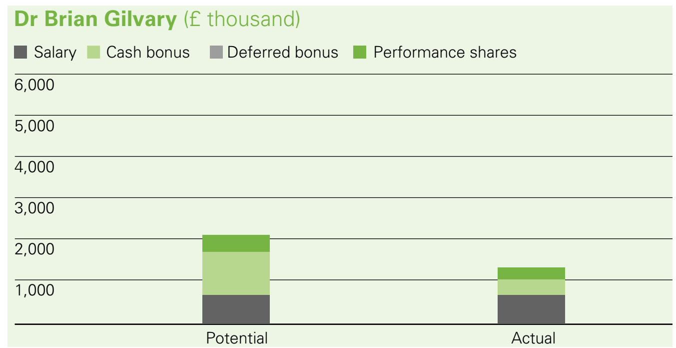
This section contains detail on executive directors' remuneration including salary, annual bonus and deferred bonus relating to 2012 and performance shares for 2010-2012.

The charts below summarize the actual total direct remuneration outcome of 2012 for each of the executive directors compared to the potential that would have been realised if variable plans had paid out at maximum.









The definitions for both the charts above and the summary table on the page opposite reflect those that are contained in the draft remuneration reporting regulations proposed by the UK government's Department for Business Innovation and Skills (BIS). In summary:

- **Salary** – actual salary received during 2012 both for actual and potential.
- **Cash bonus** – actual cash bonus received for 2012 compared to potential cash bonus if maximum of 225% of salary had been achieved and one-third mandatory deferral applied.
- **Deferred bonus** – as per the draft regulations, this reflects deferred bonus from previous years that vested in 2012. The first potential vesting will be in 2014.
- **Performance shares** – shows the actual value of the performance shares that vested at the end of 2012. The potential shows the value that would have been attained if all shares had vested. The same share price was used for both calculations. For Iain Conn, the information also reflects restricted shares awarded in 2008, and for Dr Brian Gilvary an award prior to him joining the board. Further detail can be found on page 133.

Salary – 2012 outcomes

Salaries were reviewed in May 2012 relative to other oil majors, other large UK and Europe-based international companies and key US companies. The committee also considered the level of pay increases for executives below board level, as well as different employee groups across the business.

Based on this review, salaries were increased by 3% for Bob Dudley (to $1,751,000), Iain Conn (to £752,000) and Dr Byron Grote (to $1,485,000) effective 1 July 2012. Dr Brian Gilvary's salary of £690,000, which had been set on his appointment on 1 January, was unchanged.

Annual bonus – 2012 outcomes

Framework

All executive directors were eligible for an overall annual bonus, including deferral, of 150% of salary at target and a maximum of 225% of salary. Bob Dudley's annual bonus was based entirely on group results and Iain Conn's, Dr Brian Gilvary's, and Dr Byron Grote's were based 70% on group results and 30% on their respective segment or function.

Measures and targets for the annual bonus were set at the start of the year and were derived from the company's annual plan which, in turn, reflected its strategy and key performance indicators. Measures were grouped under the three dominant strategy themes of safety and operational risk management (S&OR), rebuilding trust, and restoring value. Targets were set so that meeting plan equates to on-target bonus.

At group level, S&OR was set to account for 30% of total bonus and included targets for loss of primary containment, process safety tier 1 events, and recordable injury frequency. Rebuilding trust was weighted at 20% of the total and included external reputation, and internal morale and engagement. Both components were assessed via results of surveys. Finally, restoring value was set to account for 50% of total bonus and included targets for operating cash flow, underlying replacement cost profit, total cash costs, gearing, divestments, upstream unplanned deferrals, upstream major project delivery, and Downstream net income per barrel.

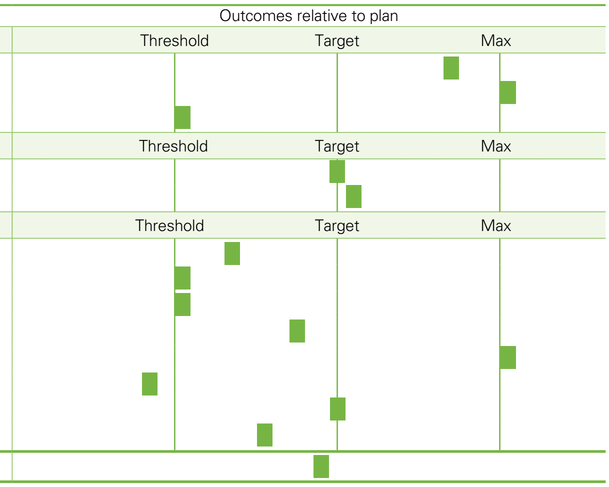
Additional measures and targets were set for Iain Conn's, Dr Brian Gilvary's and Dr Byron Grote's respective segments or functions. These focused on safety, operating efficiency and profitability for the Downstream segment and key strategic priorities and outcomes for the functions.

As well as the specific measures set out, the committee considers any other results or factors it deems relevant and applies its judgement in determining final bonus outcomes.

Outcomes

2012 annual bonus outcomes

Measures	Weight
Safety and operational risk management	**30.0%**
Loss of primary containment ®	10.0%
Process safety tier 1 events	10.0%
Recordable injury frequency ®	10.0%
Rebuilding trust	**20.0%**
External reputation	10.0%
Internal morale and alignment	10.0%
Value	**50.0%**
Operating cash flow ®	11.7%
Underlying replacement cost profit ®	11.7%
Total cash costs	11.7%
Gearing ®	3.0%
Divestments	3.0%
Upstream unplanned deferrals	3.0%
Upstream major project delivery	3.0%
Downstream net income per barrel	3.0%
Overall outcome	



® See pages 28-29 for how our bonus measures for 2012 and 2013 are directly linked to business KPIs.

Performance outcomes for the year are summarized in the table above, with a more detailed explanation following.

Safety and operational risk management performance was strong. Loss of primary containment showed a 19% improvement and process safety tier 1 events dropped by 42% over last year. Both metrics are important indicators of process safety performance. Recordable injury frequency (RIF) included, for the first time, the biofuels business acquired last year. Demanding targets had been set to bring overall safety standards in the biofuels business to a level consistent with the rest of the company. In the end, performance in that business improved significantly but failed to meet the targets set and this meant that overall company targets were missed. Excluding biofuels, RIF performance was strong and improved over 2012.

Rebuilding trust showed overall satisfactory results. In terms of external reputation, independent external surveys showed important progress towards rebuilding reputation in both the US and UK. Internally, the 'pulse survey' reflected good and improving overall engagement with 11 of 12 areas of specific ongoing monitoring all showing like-for-like better results than last year.

Performance related to restoring value was somewhat mixed, in part reflecting the priority throughout the company's business of continuing to embed safe and effective operations. Operating cash flow, underlying replacement cost profit and total cash costs all came in between threshold and target. Divestment targets were far exceeded and gearing just below target. Upstream major project delivery was on target but unplanned deferrals missed threshold levels. Downstream net income per barrel also achieved between threshold and target.

Based on these results, the formulaic outcome for group results was 97% of target. The remuneration committee concluded that this represented fairly the overall performance of the business during the year, and confirmed the score for group purposes. Bob Dudley's total overall bonus therefore was 97% of target, resulting in 146% of salary. The same score was applied to each of the other executive directors for 70% of their bonus that was determined by group results. Combined with the results for their respective segments and functions the total overall scores were 101% of target for Iain Conn, 106% for Dr Brian Gilvary and 97% for Dr Byron Grote.

Of the total bonuses referred to above, one-third is paid in cash, one-third is deferred on a mandatory basis, and one-third is paid either in cash or voluntarily deferred at the individual's discretion. As all four executive directors chose to participate in the voluntary deferral, amounts received by each of the individuals are shown below (as well as in the total remuneration summary chart on page 130).

	Cash bonus thousand	Mandatory deferral thousand	Voluntary deferral thousand
Bob Dudley	$837	$837	$837
Iain Conn	£374	£374	£374
Dr Brian Gilvary	£366	£366	£366
Dr Byron Grote	$710	$710	$710

Deferred bonus – 2012 outcomes

Framework

One-third of the total bonus awarded to the executive directors is deferred into shares on a mandatory basis under the terms of the deferred bonus element. Deferred shares are matched on a one-for-one basis and both deferred and matched shares vest after three years contingent on an assessment of safety and environmental sustainability over the three-year deferral period.

Individuals may elect to defer an additional one-third of total bonus into shares on the same basis and subject to the same contingency as the mandatory deferral.

Outcomes

No plans matured in 2012 for executive directors. The deferred element for executive directors was approved by shareholders and implemented in 2010. Therefore the first plan will be eligible to vest in early 2014 following the three-year deferral period and contingent on the assessment of safety and environmental sustainability over the same period.

Dr Brian Gilvary participated in a deferred bonus plan prior to his appointment as an executive director and details of this are provided in the table on page 144.

Performance shares – 2012 outcomes

Framework

Performance shares were awarded to each executive director in early 2010 with vesting after three years dependent on performance relative to measures reflecting the company's strategic priorities at the time. For the 2010-2012 plan, vesting was based one-third on total shareholder return (TSR) compared to the other oil majors, and two-thirds on a balanced scorecard of underlying performance factors compared to the same peers. The underlying performance factors were production growth, Downstream profitability, and underlying net income growth. The peer group includes ExxonMobil, Shell, Chevron, Total and ConocoPhillips. Vesting was set at 100%, 70% and 35% for performance equivalent to first, second and third rank respectively and none for fourth or fifth place of the peer group, with BP's position interpolated amongst them.

Outcomes

As the starting point for all measures was before the Deepwater Horizon accident, the impact of this continues to be dominant. Results for all measures were below the third place required and so no shares vested. The resulting shares and value of the vesting for each individual are shown to the right (as well as in the total remuneration summary chart on page 130).

	Original award	Shares vested (including dividends)	Value of vested shares thousand
Bob Dudley			
performance shares	581,082	0	$0
Iain Conn			
performance shares	656,813	0	£0
restricted shares	133,452	145,489	£666
Dr Byron Grote			
performance shares	801,894	0	$0
Dr Brian Gilvary	82,500	65,414	£299

Iain Conn was awarded restricted shares in early 2008 subject to continued service and satisfactory performance. The first tranche of these vested in February 2011 and the second in February 2013. This final tranche has been included in this year's disclosure for completeness. Dr Brian Gilvary's vesting reflects awards granted prior to him joining the board under equivalent plans below board level which vest at the same time as the executive director performance shares.

Pensions – 2012 outcomes

Framework

Executive directors are eligible to participate in regular company pension schemes that apply in their home countries which follow national norms in terms of structure and levels.

Bob Dudley and Dr Byron Grote both participate in the US plan and Iain Conn and Dr Brian Gilvary in the UK plan. Full details on these plans are set out in the policy section of this report (page 141).

Outcomes

The table below sets out the change in pension for 2012. This table follows the format required by current UK reporting regulations rather than the draft regulations that are expected to come into effect in late 2013.

Bob Dudley's pension increase is largely due to his promotion to group chief executive in late 2010. Since his pension is based on three-year average salary and bonus, the impact of a promotion takes a number of years to be fully reflected in his pension. Dr Brian Gilvary's pension, based on final salary, also shows a significant increase due to his promotion in January 2012.

Under the draft regulations, the disclosure of total pension includes any cash in lieu of additional accrual that is paid to individuals in the UK scheme who have exceeded the annual allowance or lifetime allowance under UK regulations. Both Iain Conn and Dr Brian Gilvary fall into this category and in 2012 received cash supplements of 35% of salary in lieu of future service accrual.

In terms of calculating the increase in pension value both a column on 20 times additional pension earned during the year as per the draft regulations, as well as the transfer value increase as currently stipulated have been included in the table below. The summary table on page 130 uses the increase in transfer value (last column below) to which the cash supplements are separately identified.

Pensions (audited)

thousand

	Service at 31 Dec 2012	Accrued pension entitlement at 31 Dec 2012	A:Additional pension earned during the year ended 31 Dec 2012[a]	B:Transfer value of accrued benefit at 31 Dec 2011[b]	C:Transfer value of accrued benefit at 31 Dec 2012[b]	Amount of 20 times A	Amount of C-B less contributions made by the director in 2012
Bob Dudley (US)	33 years	$1,381	$433	$15,244	$22,561	$8,660	$7,317
Iain Conn (UK)	27 years	£316	£9	£6,582	£7,522	£180	£940
Dr Brian Gilvary (UK)	26 years	£317	£64	£5,486	£7,618	£1,280	£2,132
Dr Byron Grote (US)	33 years	$1,388	$60	$18,251	$19,238	$1,200	$987

[a] Additional pension earned during the year includes an inflation increase of 4.8% for UK directors and 1.7% for US directors.
[b] Transfer values have been calculated in accordance with guidance issued by the actuarial profession.

Remuneration committee

The committee was made up of the following independent non-executive directors:

Antony Burgmans – chairman
George David
Ian Davis
Professor Dame Anne Dowling (appointed July 2012)
Carl-Henric Svanberg normally attends the meetings.

Tasks

The committee's tasks are formally set out in the board governance principles as follows:

- To determine, on behalf of the board, the terms of engagement and remuneration of the group chief executive and the executive directors and to report on these to the shareholders.
- To determine, on behalf of the board, matters of policy over which the company has authority regarding the establishment or operation of the company's pension schemes of which the executive directors are members.
- To nominate, on behalf of the board, any trustees (or directors of corporate trustees) of such schemes.
- To review and approve the policies and actions being applied by the group chief executive in remunerating senior executives other than executive directors to ensure alignment and proportionality.
- To recommend to the board the quantum and structure of remuneration for the chairman of the board.

Committee activities

During the year, the committee met five times. Key discussions and decision items are shown in the table below.

The committee again undertook an evaluation of its operations using an external questionnaire administered by an external consultant. The committee discussed the findings at its January 2013 meeting. Almost all processes were rated as good to excellent in the report and in discussion the committee identified a number of areas for inclusion in 2013 agendas.

Remuneration committee 2012 meetings

	Feb	May	Jul	Sep	Dec
Strategy and policy					
Directors' remuneration report for 2012 AGM	■				
Directors' remuneration report vote outcome		■			
Remuneration policy		■			
Committee operation		■			
Salary review					
Executive directors		■			
Executive team and leadership group	■				
Annual bonus					
Assess performance	■		■		
Determine bonus for 2011	■				
Review measures for 2013				■	
Agree measures and targets for 2013					■
Long-term equity plans					
Assess performance	■		■		
Determine vesting of 2009-2011 plans	■				
Agree awards for 2012-2014 plans	■				
Review measures for 2013-2015 plans				■	
Agree measures and targets for 2013-2015 plans					■
Other items					
Review chairman's fees					■
Other issues as required	■	■	■	■	■

Independence

The committee operates with a high level of independence. The board considers all committee members to be independent (see page 112) with no personal financial interest, other than as shareholders, in the committee's decisions.

The group chief executive is consulted on matters relating to the other executive directors and senior executives who report to him and on matters relating to the performance of the company; neither he nor the chairman of the board participate in decisions on their own remuneration. Both the company's head of human resources and head of group reward attend relevant sections of meetings to ensure appropriate input on matters related to executives below board level.

Gerrit Aronson, an independent consultant, is the committee's independent adviser as well as secretary. He is engaged directly by the committee and not by executive management. Advice is also received from the company secretary, who reports to the chairman of the board; and from other external advisers appointed by the committee for specialist advice and services on particular remuneration matters. In 2012 the committee continued to engage Towers Watson as its principal external adviser, primarily for market information. Freshfields Bruckhaus Deringer LLP provided legal advice on specific matters to the committee. Both firms provide other advice in their respective areas to the group. The independence of the advice is periodically reviewed by David Jackson, the company secretary to ensure it meets a high standard.

Shareholder engagement

The committee values its dialogue with major shareholders on remuneration matters. During the year the committee's chairman and the committee's independent adviser personally met with key shareholders holding around 20% of the company's shares to ascertain their views and discuss important aspects of the committee's policy. They also met key proxy advisers to similarly engage. This engagement provides the committee with an important direct perspective of shareholder interests and, along with the vote at the AGM on the directors' remuneration report, is considered when making decisions.

Directors' interests

The figures below indicate and include all the beneficial and non-beneficial interests of each director of the company in shares of BP (or calculated equivalents) that have been disclosed to the company under the Disclosure and Transparency Rules as at the applicable dates.

Current directors	Ordinary shares or equivalents at 1 Jan 2012	Ordinary shares or equivalents at 31 Dec 2012	Change from 31 Dec 2012 to 25 Feb 2013	Ordinary shares or equivalents total at 25 Feb 2013
Carl-Henric Svanberg	942,979	988,077	–	988,077
Bob Dudley	337,301[a]	346,008[a]	–	346,008[a]
Paul Anderson	6,000[a]	6,000[a]	24,000[a]	30,000[a]
Admiral Frank Bowman	12,720[a]	16,320[a]	–	16,320[a]
Antony Burgmans	10,156	10,156	–	10,156
Cynthia Carroll	10,500[a]	10,500[a]	–	10,500[a]
Iain Conn	425,169[b]	509,729[b]	70,423	580,152[b]
George David	579,000[a]	579,000[a]	–	579,000[a]
Ian Davis	10,391	10,866	–	10,866
Dr Brian Gilvary	236,029	331,977	77,267	409,244
Dr Byron Grote	1,394,819[c]	1,512,616[c]	–	1,512,616[c]
Brendan Nelson	11,040	11,040	–	11,040
Phuthuma Nhleko	–	–	–	–
Andrew Shilston	–	15,000	–	15,000
Directors joining the board	On appointment			
Professor Dame Ann Dowling	–[d]	11,630	–	11,630
Directors leaving the board	At 1 Jan 2012	At resignation/ retirement		
Sir William Castell	82,500	82,500[e]	–	–

[a] Held as ADSs.
[b] Includes 48,024 shares held as ADSs.
[c] Held as ADSs, except for 94 shares held as ordinary shares.
[d] On appointment at 3 February 2012.
[e] On retirement at 12 April 2012.

The table below shows both the performance shares and the deferred bonus element awarded under the BP Executive Directors' Incentive Plan (EDIP). These figures represent the maximum possible vesting levels. The actual number of shares/ADSs that vest will depend on the extent to which performance conditions have been satisfied over a three-year period. Additional details regarding the performance shares and deferred bonus elements of the EDIP awarded can be found on pages 143 and 144.

Current directors	Performance shares at 1 Jan 2012	Performance shares at 31 Dec 2012	Change from 31 Dec 2012 to 25 Feb 2013	Performance shares total at 25 Feb 2013
Bob Dudley[a]	2,451,048	3,691,950	1,270,710	4,962,660
Iain Conn	2,103,422	2,305,847	365,314	2,671,161
Dr Brian Gilvary[b]	67,500	669,434	934,620	1,604,054
Dr Byron Grote[a]	2,686,632	2,889,192	446,430	3,335,622

[a] Held as ADSs.
[b] This includes conditionally awarded shares made under the Competitive Performance Plan prior to his appointment as a director. The vesting of these shares is subject to performance conditions.

At 25 February 2013, the following directors of BP p.l.c. held the numbers of options under the BP group share option schemes for ordinary shares or their calculated equivalent, and the number of restricted shares as set out below. None of these are subject to performance conditions. Additional details regarding these options can be found on page 144.

Current directors	Options	Restricted shares
Bob Dudley	–	–
Iain Conn	3,814	–
Dr Brian Gilvary	504,191	197,881
Dr Byron Grote	–	–

No director has any interest in the preference shares or debentures of the company or in the shares or loan stock of any subsidiary company.

There are no directors or members of senior management who own more than 1% of the ordinary shares in issue. At 25 February 2013, all directors and senior management as a group held interests in 10,878,365 ordinary shares or their calculated equivalent, 12,805,997 performance shares or their calculated equivalent and 6,475,874 options for ordinary shares or their calculated equivalent under the BP group share option schemes.

2013 remuneration policy

Overview

Remuneration policy summary

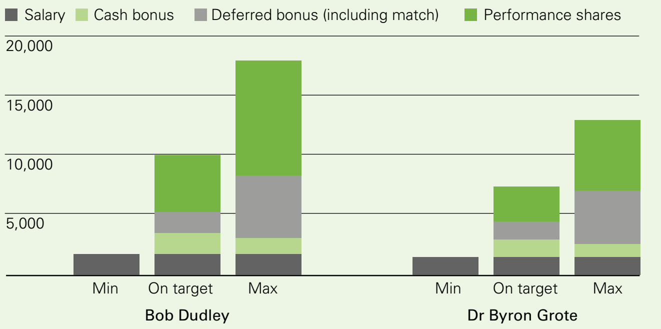
Component	Policy and opportunity	2013 operation and performance metrics
Salary	Base salaries should be competitive relative to relevant market peer groups and are normally reviewed annually.	Salaries as at 1 January 2013 are: Bob Dudley $1,751,000, Iain Conn £752,000, Dr Brian Gilvary £690,000 and Dr Byron Grote $1,485,000.
Annual bonus	Annual bonus should be based on performance relative to measures and targets reflecting the annual plan, which in turn reflects the strategic priorities of the company. Achieving plan results should equate to on-target bonus. On-target bonus is set at 150% of salary for executive directors with a maximum of 225% of salary.	Bonus measures for 2013 are: • **Safety and operational risk management (30%).** – Loss of primary containment. Ⓡ – Process safety tier 1 events. – Recordable injury frequency. Ⓡ • **Value creation (70%).** – Operating cash flow. Ⓡ – Underlying replacement cost profit. Ⓡ – Total cash costs. – Upstream unplanned deferrals. – Upstream major project delivery. – Downstream net income per barrel. No change from last year on safety and operational risk management. Weight on value creation increased from 50% last year by eliminating rebuilding trust as a measure.
Deferred bonus	A portion of annual bonus should be paid in shares and deferred to add long-term sustainability and shareholder alignment to short-term performance achievement.	One-third of annual bonus is deferred on a mandatory basis and a further one-third can be deferred on a voluntary basis. All deferred shares are matched on a one-for-one basis. All deferred and matched shares vest after three years contingent on an assessment of safety and environmental sustainability over the three-year deferral period. No change from last year.
Performance shares	A large portion of total remuneration for executive directors should be tied to the long-term performance of the company. Shares to a value of 5.5 times salary for the group chief executive and 4 times salary for the other executive directors are normally awarded annually. Vesting of the shares after three years is dependent on performance relative to measures reflecting the strategic priorities of the company. Those shares that vest are held for an additional three-year retention period, after payment of tax on vesting.	The 2013-2015 share element will vest based equally on the following three performance metrics: • **Total shareholder return versus oil majors.** Ⓡ • **Operating cash flow.** Ⓡ • **Strategic imperatives.** – Reserves replacement versus oil majors. Ⓡ – Process safety. Ⓡ – Major project delivery. Executive directors are expected to develop a personal shareholding of five times salary before shares are released. No change from last year with the exception of major project delivery replacing rebuilding trust as one of the strategic imperatives, to align with strategy.
Pension and other benefits	Executive directors should participate in the normal company pension and benefit schemes applying in their home countries.	Both UK and US executive directors remain on defined benefit pension plans. UK directors, as for all UK employees who exceed the annual allowance set by legislation, may receive a cash supplement in lieu of future service pension accrual.

Ⓡ See pages 28-29 for how our bonus measures for 2012 and 2013 are directly linked to business KPIs.

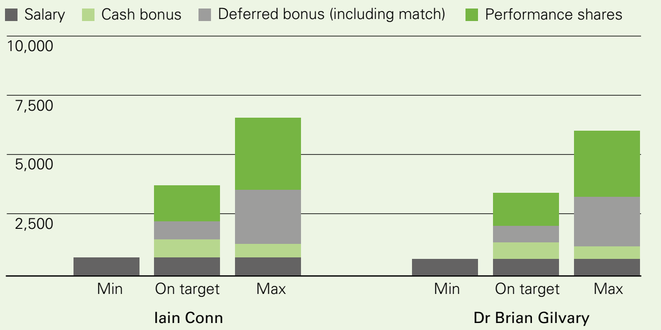
2013 remuneration policy in more depth

Total remuneration is made up of the five components summarized in the table opposite. Each of these is explained in more detail in this section of the report. The total remuneration opportunity for executive directors is strongly performance based and weighted to the long term. As shown below over 90% of the group chief executive's total direct remuneration opportunity (that is at maximum) requires the achievement of demanding performance requirements, and over 80% is long term – three years in the case of deferred bonus and six years for the performance shares.

Executive directors paid in US$ (thousand)



Executive directors paid in UK£ (thousand)



The two charts above provide scenarios for what executive directors may get paid for different levels of performance, consistent with the draft UK regulations on remuneration reporting. Dr Byron Grote's chart shows full-year values for illustration and does not reflect the impact of his announced retirement from the board.

The minimum amount reflects current base salary which is the only part of total direct remuneration that is not performance related.

On-target amounts are based on the following assumptions:

- Current salary.
- Cash bonus reflecting 'on-target' level of 150% of salary of which two-thirds is paid in cash.
- Deferred bonus reflecting one-third of 'on-target' bonus of 150% which is deferred on a mandatory basis and matched on a one-for-one basis.
- Performance shares that vest to a value of one half of the maximum.
- Share prices are assumed to remain constant for calculation purposes.

Maximum amounts are based on the following assumptions:

- Current salary.
- Cash bonus reflecting maximum level of 225% of salary of which one-third is paid in cash.
- Deferred bonus reflecting two-thirds of maximum bonus of 225% which is deferred on a mandatory and voluntary basis, and matched one-for-one.
- Performance shares that fully vest amounting to 5.5 times salary for the group chief executive and 4 times salary for other executive directors.
- Share prices are assumed to remain constant for calculation purposes.

Salary – 2013 policy

As most components of total remuneration are determined as multiples of salary, the remuneration committee makes careful reviews of salaries, normally annually. These reviews include thorough consideration of other large UK and Europe-based global companies, other oil majors, and relevant US companies. They also include similar consideration of the salary treatment throughout the company, as well as company performance and investor perspectives. It is expected that salaries for executive directors will be reviewed mid-year in this context.

Annual bonus – 2013 policy

Operation

For 2013, all executive directors will again be eligible for a total bonus (including deferral) of 150% of salary at target and 225% at maximum. Bob Dudley's bonus will be based entirely on group measures as will Dr Brian Gilvary's and Dr Byron Grote's. Iain Conn will have 70% of his bonus based on group results and 30% on his business segment.

The group strategy provides the overall context for the company's key performance indicators and the focus for the annual plan. From this, measures and targets are selected at the start of the year for senior managers, including executive directors, to reflect the key priorities of the business. Measures typically include a range of financial and operating metrics as well as those relating to safety and environment.

The committee has a preference for quantifiable, hard targets that can be factually measured and objectively assessed according to well understood principles and definitions. Where it is more appropriate to have more qualitative measures, the information that will be reviewed to arrive at conclusions is established at the start of the year. Targets are set so that achieving plan levels of performance results in on-target bonus.

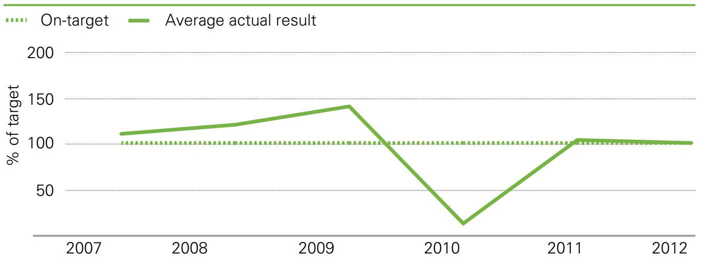
At the end of each year, performance is assessed relative to the measures and targets established at the start of the year, adjusted for any material changes in the market environment (predominantly oil prices).

As in past years, in addition to the specific bonus metrics, the committee will also review the underlying performance of the group in light of the overall business plan, competitors' results, analysts' reports, and seek input from other committees on relevant aspects. When appropriate, the committee may make adjustments to a straight formulaic result based on this fuller information. The committee considers that this informed judgement is important to establishing a fair overall assessment.

The rigorous process followed by the committee has resulted in bonus levels varying considerably over the past several years, reflecting the changing fortunes of the company during the period.

The chart below shows the average annual bonus result (before any deferral) and relative to an on-target level for executive directors for 2012 as well as the previous five years.

History of annual bonus results



Performance measures

The measures used to determine bonus results flow directly from the group's annual plan which reflects the strategic priorities of safety and operational risk management, and reinforcing value creation.

A central strategic priority continues to be safety and managing risk. As last year, performance in this area will account for 30% of group results for bonus purposes. The primary measures used to assess performance will be loss of primary containment, process safety tier 1 events, and recordable injury frequency. The first two of these track process safety while the third reflects personal safety and this balance gives an overall perspective on performance. The committee will also seek the input of the safety, ethics and environment assurance committee (SEEAC) to determine if there are any other factors or metrics that should be considered in arriving at a final assessment at year end.

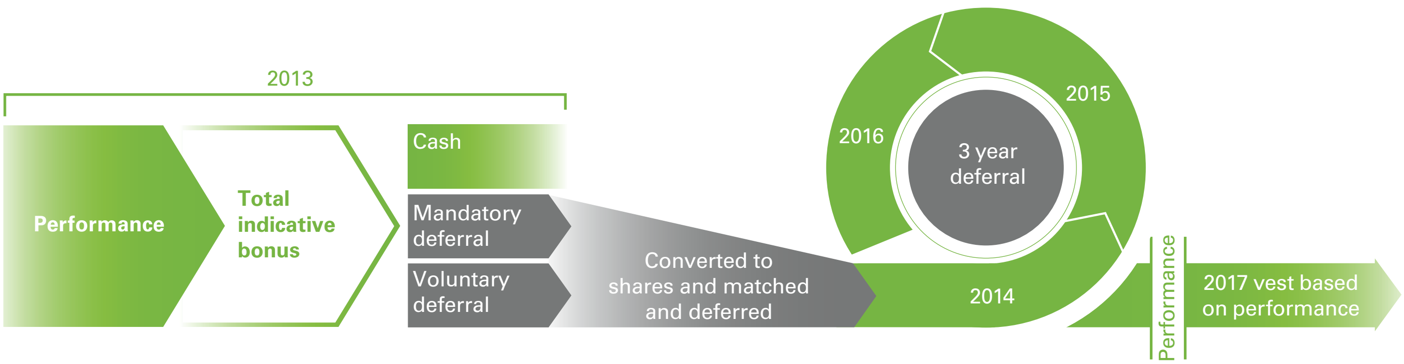
A second set of measures will track performance relative to value creation and account for 70% of group results for bonus purposes. This reflects increased emphasis on restoring value from last year when it accounted for 50%. The 'rebuilding trust' set of measures, accounting for 20% last year, will not feature in 2013. Three financial measures for value creation include operating cash flow, underlying replacement cost profit, and total cash cost. Three additional operating metrics include upstream major project delivery, upstream planned deferrals, and Downstream net income per barrel. This set of metrics provides a balance of financial and operating priorities, as well as significant continuity from last year.

The Downstream segment will include specific safety metrics for the segment. Value metrics will include availability, efficiency, and profitability measures, as well as divestments and major project delivery.

Deferred bonus – 2013 policy

The structure of deferred bonus, paid in shares, places increased focus on long-term alignment with shareholders, and reinforces the critical importance of maintaining high safety and environmental standards. It effectively translates the outcome of a portion of the annual bonus into a long-term plan with additional performance hurdles. As shown below, the performance results of 2013 will form the basis for determining the deferred bonus in 2014.

Timeline for 2013 deferred bonus



Operation

For 2013, as last year, one-third of the annual bonus will be deferred on a mandatory basis into shares for three years. Under the rules of the plan, the average share price over the three days following announcement of full-year results is used to determine the number of shares. Deferred shares are matched by the company on a one-for-one basis.

Executive directors may defer a further one-third of their annual bonus into shares on a voluntary basis, which will be capable of vesting, and will qualify for matching, on the same basis as set out above.

Both deferred and matched shares will vest in early 2017 contingent on an assessment of safety and environmental sustainability over the three-year deferral period. Where shares vest, the executive director will also receive additional shares representing the value of the re-invested dividends.

Performance measures

Since 2010, the deferred bonus has been subject to a safety and environmental sustainability hurdle, and this will again be applied this coming year.

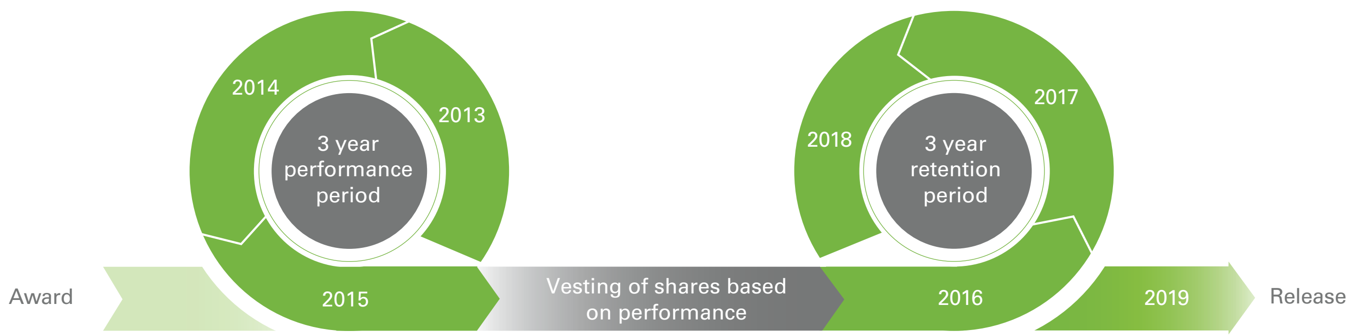
If the committee assesses that there has been a material deterioration in safety and environmental metrics, or there have been major incidents revealing underlying weaknesses in safety and environmental management, then it may conclude that shares should vest in part, or not at all. In reaching its conclusion, the committee will obtain advice from the SEEAC.

The committee believes that this safety and environmental hurdle is appropriate for several reasons. First, high standards in this area are an important priority of BP's strategy. Second, maintaining safety and environmental standards over the long-term is a good qualitative determinant of the sustainability of the business. Third, this non-financial hurdle will complement the financial and operational performance conditions applicable to performance share awards.

Performance shares – 2013 policy

The performance share element reflects the committee's policy that a large proportion of total remuneration is tied to long-term performance. A three-year performance period, combined with a further three-year retention period for those shares that vest, creates a six-year incentive structure which is designed to ensure executive interests are aligned with those of shareholders.

Timeline for 2013-2015 share element



Operation

Performance shares are awarded conditionally at the start of each year. For 2013, as last year, shares have been awarded to a value of 5.5 times salary for the group chief executive and 4 times salary for the other executive directors (the maximum allowed under the plan).

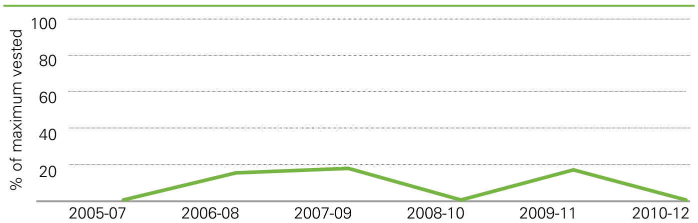
Performance shares will only vest to the extent that performance conditions, as described below, are met. The committee also has an overriding discretion, in exceptional circumstances, to reduce the number of shares that vest.

Where shares vest, the executive director will receive additional shares representing the value of the re-invested dividends on those shares. Sufficient shares may be sold at vesting to discharge tax liabilities.

The remaining vested shares will normally be subject to a compulsory retention period of a further three years. Furthermore, these shares will only be released once the company's minimum shareholding target of five times salary has been met.

The history of vesting of the share element for the past plan and the five previous ones is shown below, reflecting both demanding performance conditions and poor company performance during this period.

History of share element vesting



2013 performance measures

Performance conditions for the 2013-2015 share element will be aligned with the company's strategic agenda which continues to focus on value creation and reinforcing safety and operational risk management. Vesting of shares will be based one-third on BP's total shareholder return (TSR) compared to other oil majors, reflecting the central importance of restoring the value of the company. A further third will be based on the operating cash flow of the company, reflecting a central element of value creation. The final third will be based on a set of strategic imperatives; in particular, reserves replacement, safety and operational risk, and major project delivery.

For the relative measures, TSR and the reserves replacement ratio, the comparator group will consist of ExxonMobil, Shell, Total and Chevron. This group can be altered if circumstances change, for example, if there is significant consolidation in the industry. While a narrow group, it continues to represent the comparators that both shareholders and management use in assessing relative performance.

The TSR will be calculated as the share price performance over the three-year period, assuming dividends are reinvested. All share prices will be averaged over the three-month period before the beginning and end of the performance period. They will be measured in US dollars.

The reserves replacement ratio is defined according to industry standard specifications and its calculation is audited. As in previous years, the methodology used for the relative measures will rank each of the five oil majors on each measure. Performance shares for each component will vest at levels of 100%, 70% and 35% respectively, for performance equivalent to first, second and third rank. No shares will vest for fourth or fifth place.

Operating cash flow has been identified as a core strategic priority of the company. Targets have been established reflecting agreed plans, $100/bbl oil price and other normal operating assumptions.

Finally the remaining strategic imperatives relating to process safety and major project delivery will be determined by a mixture of internal targets and external assessment. In the case of safety, loss of primary containments, process safety tier 1 incidents and recordable injury frequency will provide the key factual data as well as the input of the SEEAC. Major project delivery component will be based on the commissioning success of major projects.

The committee considers that this combination of quantitative and qualitative measures reflects the long-term value creation priorities of the company as well as the key underpinnings for business sustainability. As in previous years, the committee may exercise its discretion, in a reasonable and informed manner, to adjust vesting levels upwards or downwards if it concludes that the formulaic approach does not reflect the true underlying health and performance of BP's business relative to its peers. It will explain any adjustments in the directors' remuneration report following vesting, in line with its commitment to transparency.

Pensions – 2013 policy

Executive directors are eligible to participate in the appropriate pension schemes that apply in their home country and that follow national norms in terms of structure and levels. Details of pension accrual are set out in the table on page 133 and take into account the total amount that could be payable under relevant plans as described further below.

US executive directors

Pension benefits are provided to Bob Dudley and Dr Byron Grote through a combination of tax-qualified and non-qualified benefit plans, consistent with US tax regulations, as applicable.

The BP Retirement Accumulation Plan (US pension plan) is a US tax-qualified plan that features a cash balance formula and includes grandfathering provisions under final average pay formulas for certain members of acquired companies, including Bob Dudley, who participated in the predecessor Amoco pension plan, which was merged into the BP US pension plan effective 1 July 2000.

Bob Dudley was an active member of the Employee Retirement Plan of Amoco Corporation on 30 June 2000 and is classified as an Amoco heritage participant under the US pension plan. As with all Amoco heritage participants, he is entitled to receive the greater of (a) the cash balance benefit under the US pension plan; and (b) the sum of (i) his accrued benefit as of 31 December 2012 under the Amoco heritage plan formula (described below) and (ii) a new cash balance account (established 1 January 2013 with a zero balance). Bob Dudley's benefit under the Amoco heritage plan is based on his average annual eligible earnings (being base salary plus cash bonus, subject to the IRS compensation limit) over the better of (i) the last consecutive 36 months of benefit service preceding his termination date, and (ii) the highest three consecutive calendar years out of his last 10 years of benefit service. Bob Dudley's retirement benefit under the US pension plan is unreduced at age 60 but reduced by 5% per year if taken before age 60.

Dr Byron Grote was an active member of the BP America Retirement Accumulation Plan on 30 June 2000 and is classified as a BP heritage participant. As a BP heritage participant, he is entitled to receive the cash balance benefit under the US pension plan with additional payment options.

BP also provides a number of non-qualified pension plans in which Bob Dudley and Dr Byron Grote participate.

Bob Dudley will receive a benefit under the TNK-BP Supplemental Retirement Plan which is a lump sum benefit based on the same calculation as his benefit under the US pension plan but reflecting his service and earnings at TNK-BP.

The BP Excess Compensation (Retirement) Plan (excess compensation plan) provides a supplemental benefit which is the difference between (a) the benefit accrual under the US pension plan and the TNK-BP Supplement Retirement Plan without regard to the IRS compensation limit (including for this purpose base salary, cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP), and (b) the actual benefit payable under the US pension plan and the TNK-BP Supplemental Retirement Plan, applying the IRS compensation limit. The benefit calculation under the heritage Amoco formula includes a reduction of 5% per year if taken before age 60.

Dr Byron Grote will receive a benefit under the BP America Inc. Supplemental Retirement Accumulation Plan (SRAP), which is a lump sum cash balance that only grows with interest based on the greater of the 30-year US Treasury bond interest rate or 5%.

As of 31 December 2012, Dr Byron Grote will also receive a benefit from the BP Supplemental Executive Retirement Benefit Plan (SERB). The benefit payable under this supplemental plan is based on a target of 1.3% of final average earnings (including for this purpose base salary plus cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP) for each year of service (without regard for tax limits) less benefits paid under all other BP (US) qualified and non-qualified pension arrangements. The benefit payable under SERB is unreduced at age 60 but reduced by 5% per year if separation occurs before age 60. Benefits payable under this plan are unfunded and therefore paid from corporate assets. As of 31 December 2012, Bob Dudley will not receive a benefit from this plan due to the value of his benefits under the other plans.

UK executive directors

Iain Conn and Dr Brian Gilvary are members of the regular BP pension scheme in respect of service prior to 1 April 2011. The core benefits under this scheme are non-contributory. They include a pension accrual of 1/60th of basic salary for each year of service, up to a maximum of two-thirds of final basic salary and a dependant's benefit of two-thirds of the member's pension. The scheme pension is not integrated with state pension benefits. Higher accrual rules are offered to employees on the payment of personal contributions.

Since 1 April 2011 the UK directors, Iain Conn and Dr Brian Gilvary, have received a cash supplement in lieu of future service pension accrual in the BP pension scheme. This follows the reduction in the annual allowance applicable to plans such as the BP pension scheme in 2011. Some employees, including the UK directors, have had to cease pension accrual for future service to remain within the new annual allowance. For all these employees the cash supplement is equal to 35% of basic salary.

Until the end of March 2011, pension benefits in excess of the individual lifetime allowance set by legislation were paid via an unapproved, unfunded pension arrangement provided directly by the company. From April 2011 only increases in accrued benefits due to increases in salary in excess of the individual lifetime allowance are covered by their arrangements. Both Iain Conn and Dr Brian Gilvary are covered under this arrangement.

The rules of the BP pension scheme were amended in 2006 such that the normal retirement age is 65. Prior to 1 December 2006, scheme members could retire on or after age 60 without reduction.

Both Iain Conn and Dr Brian Gilvary were in service at 1 December 2006, and therefore special early retirement terms apply to them. In the event of retirement between 60 and 65, they are entitled to an immediate unreduced pension. In the event of retirement between 55 and 60, they are entitled to an immediate unreduced pension in respect of the proportion of their benefit for service up to 30 November 2006, and are subject to such reduction as the scheme actuary certifies in respect of the period of service after 1 December 2006. For retirees leaving in circumstances approved by the committee the scheme actuary has to date applied a reduction of 3% per annum in respect of the period of service from 1 December 2006 up to the leaving date; a greater reduction can be applied in other circumstances. Those leaving before 55 are entitled to a deferred pension that becomes payable from 55 or later, on the basis set out above. Irrespective of the above, an individual leaving in circumstances of total incapacity is entitled to an immediate unreduced pension as from the leaving date.

Other benefits – 2013 policy

Executive directors are eligible to participate in regular employee benefit plans and in all-employee share saving schemes applying in their home countries. Benefits in kind are not pensionable.

Service contracts

Summary details of each executive director's service agreement are as follows:

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	Service agreement date	Salary as at 1 Jan 2013
Bob Dudley	6 Apr 2009	$1,751,000
Iain Conn	22 Jul 2004	£752,000
Dr Brian Gilvary	22 Feb 2012	£690,000
Dr Byron Grote	7 Aug 2000	$1,485,000

Bob Dudley's contract is with BP Corporation North America Inc. He is seconded to BP p.l.c. under a secondment agreement dated 15 April 2012, which expires on 15 April 2014. Dr Byron Grote's agreement is with BP Exploration (Alaska) Inc. He is seconded to BP p.l.c. under a secondment agreement of 7 August 2000, which expires at the date of the 2013 AGM. Both secondments can be terminated by one month's notice by either party and terminate automatically on the termination of their service agreements. Iain Conn's and Dr Brian Gilvary's service agreements are with BP p.l.c.

Each executive director is entitled to pension provision, details of which are summarized on page 133 of this report.

Each executive director is entitled to the following contractual benefits:

- A company car for business and private use, on terms that the company bear all normal servicing, insurance and running costs. Alternatively, the executive director is entitled to a car allowance in lieu.
- Medical and dental benefits; sick pay during periods of absence; tax preparation assistance.
- Indemnification in accordance with applicable law.

Each executive director participates in bonus or incentive arrangements at the committee's sole discretion. Currently, each participates in the discretionary bonus scheme and the EDIP, described on pages 138 and 139 and 140 of this report respectively.

Each executive director may terminate his employment by giving his employer 12 months' written notice. In this event, for business reasons, the employer would not necessarily hold the executive director to his full notice period.

Other than in the case of Dr Brian Gilvary (who became a director on 1 January 2012), the service agreements are expressed to expire at a normal retirement age of 60; however, such executive directors could not, under UK law, be required to retire at this (or any other) age following abolition of the default retirement age.

The employer may lawfully terminate the executive director's employment in the following ways:

- By giving the director 12 months' written notice.
- Without compensation, in circumstances where the employer is entitled to terminate for cause, as defined for the purposes of his service agreement.

Additionally, in the case of Iain Conn and Dr Brian Gilvary, the company may lawfully terminate employment by making a lump sum payment in lieu of notice equal to 12 months' base salary. The company may elect to pay this sum in monthly instalments rather than as a lump sum.

The lawful termination mechanisms described above are without prejudice to the employer's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby to be liable for damages to the executive director.

In the event of termination by the company, each executive director may have an entitlement to compensation in respect of his statutory rights under employment protection legislation in the UK and potentially elsewhere.

The committee considers that its policy on termination payments arising from the contractual provisions summarised above provides an appropriate degree of protection to the director in the event of termination, and is consistent with UK market practice.

Exit payment policy

If it became necessary for the company to terminate an executive director's employment, and therefore to determine a termination payment, the committee's policy would be as follows in relation to the matters described below:

- The director's primary entitlement would be to a termination payment in respect of his service agreement, as set out above. The committee will consider mitigation to reduce the termination payment to a leaving director when appropriate to do so, having regard to the circumstances and the law governing the agreement. Mitigation would not be applicable where a contractual payment in lieu of notice is made. In addition, the director may be entitled to a payment in respect of his statutory rights. Other potential elements are as follows. First, the committee would consider whether the director should be entitled to an annual bonus in respect of the financial year in which the termination occurs; normally, any such bonus would be restricted to the director's actual period of service in that financial year. Second, the committee would consider whether conditional share awards held by the director under the EDIP should lapse on leaving or should, at the committee's discretion, be preserved (in which event the award would normally continue until the normal vesting date and be treated in the manner described on pages 139 and 140 of this report). Any such determination will be made in accordance with the rules of the EDIP, as approved by shareholders. Third, if the departing director is eligible for an early retirement pension, the committee would consider, if relevant under the terms of the plan in which the director participates, the extent of any actuarial reduction that should be applied.
- In determining the overall termination arrangements, the committee would have regard to all relevant circumstances, and would therefore distinguish between types of leaver and the circumstances under which the director left the company. This is primarily relevant to consideration of how discretion would be exercised in relation to conditional share awards under the EDIP. It is also relevant where a departing director has a right to an early retirement pension. UK directors who leave in circumstances approved by the committee may have a favourable actuarial reduction applied to their pensions (which has to date been 3%). Departing directors who leave in other circumstances are subject to a greater reduction.
- The performance of the leaving director would be taken into account in various respects. In particular, in deciding whether to exercise discretion to preserve EDIP awards, the committee would have regard to the director's performance during the performance cycle of the relevant awards, as well as a range of other relevant factors, including the proximity of the award to its maturity date.
- The committee would also have regard to all other relevant factors, including consideration of whether a contractual provision in the director's arrangements complied with best practice at the time the director's employment was terminated as well as at the time the provision was agreed to.

Director leaving the board

Dr Byron Grote will be retiring from the board at the 2013 AGM, and ceasing employment with the company soon after. Under the rules of the EDIP, his outstanding performance share awards pertaining to the 2011-2013, 2012-2014 and 2013-2015 performance periods, as well as the matching share awards in respect of 2010, 2011 and 2012 deferred bonus will all be prorated to reflect actual service during the applicable three-year performance periods. These share awards will vest at the normal time to the extent the performance targets or hurdles are met. His 2013 bonus eligibility will likewise be prorated to reflect his service and based on group results for the year. He will not receive any termination payments on leaving service.

Further details

Executive directors – external appointments

The board supports executive directors taking up appointments outside the company to broaden their knowledge and experience. Each executive director is permitted to accept one non-executive appointment, from which they may retain any fee. External appointments are subject to agreement by the chairman and reported to the board. Any external appointment must not conflict with a director's duties and commitments to BP.

During the year, the fees received by executive directors for external appointments were as follows:

Director	Appointee company	Additional position held at appointee company	Total fees
Iain Conn	Rolls-Royce	Senior independent director	£72,000
Dr Byron Grote	Unilever	Audit committee member	Unilever PLC £47,500 Unilever NV €54,935

Performance shares (audited)

			Share element interests				Interests vested in 2012 and 2013		
			Potential maximum performance shares[a]						
	Performance period	Date of award of performance shares	At 1 Jan 2012	Awarded 2012	At 31 Dec 2012	Awarded 2013	Number of ordinary shares vested[b]	Vesting date	Market price of each share at vesting £
Bob Dudley[c]	2009-2011	06 May 2009	539,634	–	–	–	101,735	15 Feb 2012	4.98
	2010-2012	09 Feb 2010	581,082	–	581,082	–	0	–	–
	2011-2013	09 Mar 2011	1,330,332	–	1,330,332	–	–	–	–
	2012-2014	08 Mar 2012[d]	–	1,343,712	1,343,712	–	–	–	–
	2013-2015	11 Feb 2013	–	–	–	1,393,032	–	–	–
Iain Conn	2008-2013[e]	13 Feb 2008	133,452	–	133,452	–	145,489	7 Feb 2013	4.58
	2009-2011	11 Feb 2009	780,816	–	–	–	149,259	15 Feb 2012	4.98
	2010-2012	09 Feb 2010	656,813	–	656,813	–	0	–	–
	2011-2013	09 Mar 2011	623,025	–	623,025	–	–	–	–
	2012-2014	08 Mar 2012[d]	–	660,663	660,663	–	–	–	–
	2013-2015	11 Feb 2013	–	–	–	699,535	–	–	–
Dr Brian Gilvary	2010-2012[f]	15 Mar 2010	60,000	–	60,000	–	65,414	15 Jan 2013	4.58
	2011-2013[f]	14 Mar 2011	67,500	–	67,500	–	–	–	–
	2010-2012[g]	15 Mar 2010	22,500	–	22,500	–	–	–	–
	2011-2013[g]	14 Mar 2011	22,500	–	22,500	–	–	–	–
	2012-2014	08 Mar 2012[d]	–	624,434	624,434	–	–	–	–
	2013-2015	11 Feb 2013	–	–	–	641,860	–	–	–
Dr Byron Grote[c]	2009-2011	11 Feb 2009	992,928	–	–	–	187,193	15 Feb 2012	4.98
	2010-2012	09 Feb 2010	801,894	–	801,894	–	0	–	–
	2011-2013	09 Mar 2011	785,394	–	785,394	–	–	–	–
	2012-2014	08 Mar 2012[d]	–	828,936	828,936	–	–	–	–
	2013-2015	11 Feb 2013	–	–	–	859,212	–	–	–
Former directors									
Dr Anthony Hayward	2009-2011	11 Feb 2009	755,512[h]	–	–	–	144,422	15 Feb 2012	4.98
	2010-2012	09 Feb 2010	303,948[h]	–	303,948	–	0	–	–
Andrew Inglis	2009-2011	11 Feb 2009	520,544[h]	–	–	–	99,506	15 Feb 2012	4.98
	2010-2012	09 Feb 2010	218,938[h]	–	218,938	–	0	–	–

[a] BP's performance is measured against the oil sector. For awards under the 2010-2012 plan, performance conditions were measured one-third on TSR against ExxonMobil, Shell, Total, ConocoPhillips and Chevron and two-thirds on a balanced scorecard of underlying performance. For awards under the 2011-2013 plan, performance conditions are measured 50% on TSR against ExxonMobil, Shell, Total, ConocoPhillips and Chevron; 20% on reserves replacement against the same peer group; and 30% against a balanced scorecard of strategic imperatives. For awards under the 2012-2014 plan, performance conditions are measured one-third on TSR against ExxonMobil, Shell, Total and Chevron; one-third on safety and operational risk management; and one-third on a balanced scorecard of strategic imperatives. Each performance period ends on 31 December of the third year.

[b] Represents vestings of shares made at the end of the relevant performance period based on performance achieved under rules of the plan and includes reinvested dividends on the shares vested.

[c] Dr Byron Grote and Bob Dudley receive awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares. One ADS is equivalent to six ordinary shares.

[d] The market price of ordinary shares on 8 March 2012 was £4.94 and for ADSs was $47.11.

[e] Restricted award under share element of EDIP. As reported in the 2007 directors' remuneration report in February 2008, the committee awarded Iain Conn restricted shares, in two tranches of 133,452 shares each and on vesting include re-invested dividends on the shares vested. The total vesting of the first tranche was 155,695 shares at £4.91 on 22 February 2011. The remaining award, noted above, vested on 7 February 2013, the fifth anniversary of the award at £4.58.

[f] Dr Brian Gilvary was conditionally awarded shares under the Executive Performance Plan prior to his appointment as a director. The vesting of these shares is not subject to further performance conditions.

[g] Dr Brian Gilvary was conditionally awarded shares under the Competitive Performance Plan prior to his appointment as a director. The vesting of these shares is subject to performance conditions.

[h] Potential maximum of performance shares reflect actual service during performance period on a pro-rated basis.

Deferred shares (audited)

					Deferred share element interests				Interests vested in 2012 and 2013		
					Potential maximum performance shares						
	Bonus year	Type	Performance period	Date of award of deferred shares	At 1 Jan 2012	Awarded 2012[a]	At 31 Dec 2012	Awarded 2013	Number of ordinary shares vested	Vesting date	Market price of each share at vesting £
Bob Dudley[b]	2011	Comp	2012-2014	08 Mar 2012	–	109,206	109,206	–	–	–	–
		Vol	2012-2014	08 Mar 2012	–	109,206	109,206	–	–	–	–
		Mat	2012-2014	08 Mar 2012	–	218,412	218,412	–	–	–	–
	2012	Comp	2013-2015	11 Feb 2013	–	–	–	114,690	–	–	–
		Vol	2013-2015	11 Feb 2013	–	–	–	114,690	–	–	–
		Mat	2013-2015	11 Feb 2013	–	–	–	229,380	–	–	–
Iain Conn	2010	Comp	2011-2013	09 Mar 2011	21,384	–	21,384	–	–	–	–
		Mat	2011-2013	09 Mar 2011	21,384	–	21,384	–	–	–	–
	2011	Comp	2012-2014	08 Mar 2012	–	80,652	80,652	–	–	–	–
		Vol	2012-2014	08 Mar 2012	–	80,652	80,652	–	–	–	–
		Mat	2012-2014	08 Mar 2012	–	161,304	161,304	–	–	–	–
	2012	Comp	2013-2015	11 Feb 2013	–	–	–	80,648	–	–	–
		Vol	2013-2015	11 Feb 2013	–	–	–	80,648	–	–	–
		Mat	2013-2015	11 Feb 2013	–	–	–	161,296	–	–	–
Dr Brian Gilvary[c]	2009	DAB	2010-2012	15 Mar 2010	87,394	–	87,394	–	95,279	15 Jan 2013	4.58
	2010	DAB	2011-2013	14 Mar 2011	44,971	–	44,971	–	–	–	–
	2011	DAB	2012-2014	15 Mar 2012	–	73,624	73,624	–	–	–	–
	2012	Comp	2013-2015	11 Feb 2013	–	–	–	78,815	–	–	–
		Vol	2013-2015	11 Feb 2013	–	–	–	78,815	–	–	–
		Mat	2013-2015	11 Feb 2013	–	–	–	157,630	–	–	–
Dr Byron Grote[b]	2010	Comp	2011-2013	09 Mar 2011	26,604	–	26,604	–	–	–	–
		Vol	2011-2013	09 Mar 2011	26,604	–	26,604	–	–	–	–
		Mat	2011-2013	09 Mar 2011	53,208	–	53,208	–	–	–	–
	2011	Comp	2012-2014	08 Mar 2012	–	91,638	91,638	–	–	–	–
		Vol	2012-2014	08 Mar 2012	–	91,638	91,638	–	–	–	–
		Mat	2012-2014	08 Mar 2012	–	183,276	183,276	–	–	–	–
	2012	Comp	2013-2015	11 Feb 2013	–	–	–	97,278	–	–	–
		Vol	2013-2015	11 Feb 2013	–	–	–	97,278	–	–	–
		Mat	2013-2015	11 Feb 2013	–	–	–	194,556	–	–	–

Comp = Compulsory.
Vol = Voluntary.
Mat = Matching.
DAB = Deferred Annual Bonus Plan.

[a] The market price of ordinary shares on 8 March 2012 was £4.94 and for ADSs was $47.11.
[b] Bob Dudley and Dr Byron Grote received awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares. One ADS is equivalent to six ordinary shares.
[c] Dr Brian Gilvary was granted the shares under the DAB prior to his appointment as a director. The vesting of these shares is not subject to further performance conditions and he receives deferred shares at each scrip payment date as part of his election choice.

Share interests in share option plans (audited)

	Option type	At 1 Jan 2012	Granted	Exercised	At 31 Dec 2012	Option price	Market price at date of exercise	Date from which first exercisable	Expiry date
Bob Dudley[a]	BP SOP	17,835	–	–	–[b]	$48.99	–	18 Feb 2005	17 Feb 2012
	BP SOP	17,835	–	–	17,835	$38.10	–	17 Feb 2006	16 Feb 2013
Iain Conn	SAYE	617	–	617	–	£4.87	£4.92[c]	01 Sep 2011	29 Feb 2012
	SAYE	605	–	–	605	£4.20	–	01 Sep 2012	28 Feb 2013
	SAYE	3,017	–	–	3,017	£3.68	–	01 Sep 2016	28 Feb 2017
	SAYE	–	797	–	797	£3.16	–	01 Sep 2015	28 Feb 2016
	EXEC	130,000	–	–	–[b]	£5.72	–	18 Feb 2005	18 Feb 2012
Dr Brian Gilvary	BP 2011	500,000	–	–	500,000	£4.44	–	07 Sep 2014	07 Sep 2021
	SAYE	4,191	–	–	4,191	£3.68	–	01 Sep 2016	28 Feb 2017

The closing market prices of an ordinary share and of an ADS on 31 December 2012 were £4.25 and $41.64 respectively.
During 2012 the highest market prices were £5.12 and $48.34 respectively and the lowest market prices were £3.60 and $36.25 respectively.
BP SOP = BP Share Option Plan. These options were granted to Bob Dudley prior to his appointment as a director and are not subject to performance conditions.
EXEC = Executive Share Option Scheme. These options were granted to Iain Conn prior to his appointment as a director and are not subject to performance conditions.
BP 2011 = BP 2011 Plan. These options were granted to Dr Brian Gilvary prior to his appointment as a director and are not subject to performance conditions.
SAYE = Save As You Earn employee share scheme.

[a] Numbers shown are ADSs under option. One ADS is equivalent to six ordinary shares.
[b] Options lapsed.
[c] Options exercised on 29 February 2012. Closing market price for information. Shares were retained after exercise of options.

Non-executive directors' remuneration

Policy

The board sets the level of remuneration for all non-executive directors within a limit approved from time to time by shareholders. Key elements of BP's policy on non-executive director remuneration include:

- Remuneration should be sufficient to attract, motivate and retain world-class non-executive talent.
- Remuneration of non-executive directors should be proportional to their contribution towards the interests of the company.
- Remuneration practice should be consistent with recognized best practice standards for non-executive directors' remuneration.
- As a UK-listed company, the quantum and structure of non-executive director remuneration will primarily be compared against best UK practice.
- Remuneration should be in the form of cash fees, payable monthly.
- Non-executive directors should not receive share options from the company.
- Non-executive directors are encouraged to establish a holding in BP shares of the equivalent value of one year's base fee.
- Remuneration for non-executive directors is reviewed annually.

Process

BP reviews the quantum and structure of chairman and non-executive remuneration on an annual basis. The chairman's remuneration is reviewed by the remuneration committee, which makes a recommendation to the board; the chairman does not vote on his own remuneration. Non-executive director remuneration is reviewed by the chairman, who makes a recommendation to the board; non-executive directors do not vote on their own remuneration.

The review of non-executive remuneration undertaken in 2012 benchmarked the structure and fees of BP non-executive directors against the ten largest companies by market capitalization in the FTSE100. The review concluded that fee levels, which had not been increased since 2007, had fallen below the comparator group and changes were made to the following fee elements:

- Increase in the basic board member fee from £75,000 to £90,000.
- Increase in committee membership fees from £5,000 to £20,000.
- Increase in the remuneration committee chairmanship fee from £20,000 to £30,000.

All other fees remained unchanged.

The review also concluded that the company should be willing to reimburse professional fees up to £5,000 per annum incurred by non-executive directors based outside the UK in connection with advice and assistance on UK tax compliance matters.

Fee structure

The table below shows the fee structure for non-executive directors from 1 October 2012:

	Fee level £ thousand
Chairman[a]	750
Senior independent director[b]	120
Board member	90
Audit, Gulf of Mexico, remuneration and safety, ethics and environment assurance committees chairmanship fees[c]	30
Committee membership fee[d]	20
Intercontinental travel allowance	5

[a] The chairman remains ineligible for committee chairmanship and membership fees or intercontinental travel allowance. He has the use of a fully maintained office for company business, a chauffeured car and security advice in London. He receives secretarial support as appropriate to his needs in Sweden.
[b] The senior independent director is still eligible for committee chairmanship fees and intercontinental travel allowance plus any committee membership fees.
[c] Committee chairmen do not receive an additional membership fee for the committee they chair.
[d] For members of the audit, Gulf of Mexico, SEEA and remuneration committees.

2012 remuneration (audited)

All fees in £ thousand	Total fees 2012	Total fees 2011
Carl-Henric Svanberg	750	750
Paul Anderson	149	128
Admiral Frank Bowman	126	120
Antony Burgmans	120	100
Cynthia Carroll	98	85
George David[a]	135	128
Ian Davis	128	160
Professor Dame Ann Dowling[b c]	97	–
Brendan Nelson	119	103
Phuthuma Nhleko	123	113
Andrew Shilston[d]	125	–
Director leaving the board in 2012		
Sir William Castell[e]	42	168

[a] In addition, George David received £28,000 for chairing the BP technology advisory council.
[b] Appointed 3 February 2012.
[c] In addition, Professor Dowling received £4,166 for her membership of the BP technology advisory council.
[d] Appointed 1 January 2012 and became senior independent director in April 2012.
[e] Retired from the board in April 2012.

No share or share option awards were made to any non-executive director in respect of service on the board during 2012.

Non-executive directors have letters of appointment that recognize that, subject to the Articles of Association, their service is at the discretion of shareholders. All directors stand for re-election at each AGM.

Past directors

Sir Ian Prosser (who retired as a non-executive director of BP in April 2010) was appointed as a director and non-executive chairman of BP Pension Trustees Limited in 1 October 2010. During 2012, he received £100,000 for this role.

Peter Sutherland (who was chairman of BP until 31 December 2009) continued his membership of the BP international advisory board after his retirement from the board of BP p.l.c. During 2012, he received €100,000 for this role.

This directors' remuneration report was approved by the board and signed on its behalf by David J Jackson, company secretary on 6 March 2013.